

1
2 UNITED STATES DISTRICT COURT
3 FOR THE DISTRICT OF COLUMBIA

4 UNITED STATES OF AMERICA,)
5 et al.,)
6) Civil No. 18-2340
7 Plaintiffs,)
8)
9 v.)
10) Washington, D.C.
11 CVS HEALTH CORPORATION,)
12 et al.,) June 4, 2019
13)
14 Defendants.) Day 1
) Afternoon Session

15
16 TRANSCRIPT OF MOTIONS HEARING
17 BEFORE THE HONORABLE RICHARD J. LEON
18 UNITED STATES DISTRICT JUDGE

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1 AFTERNOON SESSION

2 (2:10 P.M.)

3 THE COURT: The witness can resume the stand.

4 NEERAJ SOOD,

5 having been previously duly sworn, was examined and
6 testified further as follows:

7 THE COURT: You remain under oath, Doctor.

8 You may proceed when you're ready.

9 MR. QUILLEN: Thank you, Your Honor.

10 DIRECT EXAMINATION

11 BY MR. QUILLEN:

12 Q. Before the lunch break, we had started to talk about
13 potential efficiencies associated with this merger. And I
14 believe you had started with the idea that the merger would
15 promote innovation.

16 Do you want to pick up there.

17 A. Sure. Let me just -- if you will allow me to start
18 with a quick summary of the arguments before the efficiency
19 claims.

20 So with the merger and without the divestiture, what
21 happens is, in every PDP market, we have loss of Aetna as a
22 competitor, and in every PDP market, there is an increase in
23 market concentration because CVS and Aetna were competing in
24 every PDP market. With the divestiture now, we still have
25 loss of Aetna as a competitor in every PDP market, and we

1 have an increase in market concentration in every PDP market
2 because Aetna and WellCare were competing in each one of
3 those 34 PDP markets. And we have discussed the evidence
4 that the loss of a competitor and increasing market
5 concentration will, the evidence says, lead to higher
6 premiums.

7 So now let's focus on the efficiencies. We also
8 discussed the efficiency claims within the PDP market, and we
9 said that this is not a merger within the PDP market because
10 with the divestiture Aetna and CVS are not merging in the PDP
11 market. Therefore, there are no PDP market-specific
12 efficiencies that can arise.

13 So now let's look at the efficiencies outside the PDP
14 market and what they might be.

15 So the first efficiency we discussed, potential
16 efficiency, which was claimed by CVS is this would promote
17 innovation in healthcare delivery through these healthcare
18 hubs. And I discussed that typically the way innovation
19 should work is you innovate, and if consumers like what
20 you've done, you're providing a service at a low cost and
21 good quality, then you will attract more consumers. But what
22 this seems like, it's backwards. What you did is you bought
23 Aetna and its 20 million subscribers, and now you're going to
24 try to funnel them or steer them to your new model of
25 healthcare delivery but now these 20 million subscribers are

1 not available to other innovators who might have had better
2 ideas or who could provide the same service at a lower cost
3 or better quality.

4 So, for those innovators, these customers are absent,
5 and those innovators will suffer as a result. So I don't
6 think this will promote innovation, but it might actually
7 lead to a decline in innovation in healthcare delivery.

8 The other proposed benefit of this is that they've
9 said, look, we, at CVS, have access to pharmacy data, and now
10 we're going to buy Aetna, which is a health insurer, so now
11 we're going to have access to the medical data, and we can
12 combine the pharmacy data and the medical data to, say,
13 better design the drug benefit.

14 So one example of that would be, you know, suppose
15 there's a drug that lowers your healthcare costs, so you want
16 to provide good coverage for that drug if you're integrated
17 because you know that even though it increases your expense
18 on the drug side you lower your expense on the medical
19 benefits side. But if you look at what Aetna says, Aetna
20 says -- this is on slide 14 -- so Aetna says, when they
21 sign -- so Aetna signed PBM services agreement with CVS. So
22 this was about 10 years ago. And when they signed that
23 agreement, they clearly said -- they said, we retain our PBM
24 and our ability to integrate medical care with clinical and
25 pharmacy programs and actionable data. So what they're

1 saying is they were already doing what they claimed to be
2 efficiency specific to the merger. They already, without
3 this merger, had the ability to integrate medical data with
4 clinical and pharmacy programs.

5 So I don't see why this merger is needed to integrate
6 the medical and pharmacy data. You could do it outside the
7 merger.

8 As a professor at U.S.C. or as a healthcare
9 researcher, when I do research on healthcare, I have access
10 to combined pharmacy and medical data. So if I, as a
11 researcher, can get access to it, I'm sure a big company like
12 Aetna or CVS can get access to the merged data.

13 The other thing they said was, look, if you combine
14 this medical and pharmacy data, we can make CVS's pharmacists
15 more effective at counseling patients. Well, what I feel is,
16 if you truly want to make a pharmacist more effective at
17 counseling patients, what you need is the medical record
18 data. You need the data from the patient's doctor. Like the
19 healthcare claims data is just medical bills. They don't
20 tell you the clinical detail that you would know to manage a
21 patient. I'm no doctor, but I believe that if someone is
22 counseling me, I want them to have my doctor's notes with
23 them. This merger doesn't enable them to have those doctor's
24 notes.

25 The third efficiency claim is -- if you think about

1 this, maybe CVS and Aetna integrate, and that makes CVS a
2 better PBM for Aetna. But at the same time, when it creates
3 incentives for CVS to be a better PBM for Aetna, through
4 input foreclosure, it also creates incentives for CVS to be a
5 worse PBM for any plan that is competing with Aetna.

6 Now, if you look at the number of beneficiaries CVS
7 has, that's about 90 million that they represent in their PBM
8 business. And roughly 20 million are Aetna subscribers. So
9 these 20 million will potentially benefit because now CVS is
10 going to be a better representative or a better PBM for
11 Aetna. But the other 70 million are going to be worse off
12 because those other 70 million potentially compete with CVS
13 and Aetna in insurance markets and their CVS now has the
14 incentive not to provide the same level of service as they're
15 providing to Aetna. So, in some sense, there is a potential
16 benefit to 20 million, but at the same time, there is a
17 potential harm to 70 million.

18 Finally, suppose this benefit arises. How will it
19 benefit the public? It will only benefit the public if the
20 savings are passed back to the consumers as lower premiums.
21 So the idea is CVS and Aetna are one firm. They come up with
22 a better benefit design. That should lower premiums
23 and -- that should lower their costs, but whether it lowers
24 premiums or how much it lowers premiums depends upon
25 competition in the insurance market. So if there isn't a lot

1 of competition in the insurance market, those cost savings
2 will not be passed on to consumers, or some of them will be,
3 but majority or a large fraction of those cost savings will
4 not be passed on to consumers. But if the insurance markets
5 are competitive, then a high fraction of those cost savings
6 are passed on to consumers. And the evidence is that health
7 insurance markets are very concentrated.

8 So given that, it is likely that a significant
9 fraction of the savings will not be passed on to the
10 consumers even if they arise.

11 Q. What does the economic literature say about whether
12 previous mergers in the health insurance industry were good
13 for consumers?

14 A. Sure. So, on slide 21, I have quoted what -- so in
15 the *United States v. Anthem* case, several health economics or
16 economics professors submitted an amicus brief which
17 summarized the evidence on the effects of health insurance
18 mergers, and I was one of the cosigners on the brief. It
19 surveyed the entire literature in this area, and we were all
20 independent professors, we were not representing either party
21 in this case.

22 And the summary of that work says, "This body of work
23 finds that consultation in health insurance markets does not
24 on average benefit consumers. Although greater insurance
25 market concentration tends to lower provider prices, there is

1 no evidence the cost savings are passed through to consumers
2 in the form of lower premiums. To the contrary, premiums
3 tend to rise with increased insurer concentration."

4 So what this is saying is, when insurers merge
5 together, it increases their bargaining power with providers
6 of input. So you do see some cost savings, but those cost
7 savings are not passed to consumers.

8 In the end, what you see is that increase in market
9 power as a result of this merger leads to an increase in
10 premiums for consumers.

11 THE COURT: And an increase in profits?

12 THE WITNESS: And an increase in profits. Because if
13 you're not passing on the savings to consumers, then those
14 savings are going to represent increase in profits for you.

15 The other kind of quote I have is from the
16 congressional testimony of Professor Martin Gaynor, who is
17 one of the leading experts on healthcare policy or healthcare
18 antitrust policy. And he talks specifically about efficiency
19 claims related to healthcare mergers. So what he notes is,
20 "While the intuition, and the rhetoric, surrounding
21 consolidation has been positive, the reality is less
22 encouraging. The evidence on the effects of consolidation is
23 mixed, but it's safe to say that it does not show overall
24 gains from consolidation. Merged hospitals, insurers,
25 physician practices, or integrated systems are not

1 systematically less costly, higher quality, or more effective
2 than independent firms."

3 So what he is saying is, across a whole variety of
4 healthcare mergers, you don't see strong evidence that
5 efficiency improves or costs go down.

6 And what the prior evidence was saying is, when
7 insurers consolidate, there is strong evidence that premiums
8 go up.

9 BY MR. QUILLEN:

10 Q. In your opinion, is there anything about the various
11 markets in which CVS participates that would cause this
12 merger to buck the trend that these researchers have
13 identified?

14 A. I don't know of any such factor.

15 MR. QUILLEN: I have no further questions.

16 THE COURT: You may step down.

17 THE WITNESS: Thank you, Your Honor.

18 THE COURT: Thank you.

19 (Witness excused)

20 THE COURT: Who will present the next witness?

21 MR. BARLOW: I will, Your Honor.

22 THE COURT: All right.

23 MICHAEL WOHLFEILER,

24 having been duly sworn, was examined and testified as
25 follows:

1 DIRECT EXAMINATION

2 BY MR. BARLOW:

3 Q. Dr. Wohlfeiler --

4 A. Hello.

5 Q. -- can you state your name, please, and spell it for
6 the record.7 A. It is Michael, M-I-C-H-A-E-L, Wohlfeiler,
8 W-O-H-L-F-E-I-L-E-R.

9 Q. And where are you employed, Dr. Wohlfeiler?

10 A. I'm employed with AIDS Healthcare Foundation.

11 Q. And you'll see on the table in front of you your CV.
12 That is marked as AHF 1. That's your CV; correct?

13 A. Yes, that is.

14 Q. I'm going to talk about some of your background. I'm
15 not going to go into great detail on it.16 But first off, what is the AIDS Healthcare
17 Foundation?18 A. So AIDS Healthcare Foundation, or AHF, is a nonprofit
19 organization that is a provider of medical care to patients
20 with HIV or AIDS. We're what's called a safety net provider.
21 We take patients regardless of their ability to pay.22 Q. Okay. Could you explain that safety net provider
23 concept in more detail.24 A. So, again, a patient with HIV or AIDS who needs care
25 is accepted at -- can receive care at AHF. It doesn't matter

1 if they have a payer source at the time. We will provide
2 care. We will do our best to get them onto -- find a payer
3 source for them.

4 The other thing that we do is we provide what are
5 called wrap-around services. We provide a lot of additional
6 services that you wouldn't find in, for instance, a private
7 practice. We have a staffing model that our clinics have an
8 RN on site, we have special positions called benefits
9 counselors, and we have case managers, and referral
10 coordinators; a lot of extra services that you would not
11 normally find.

12 Q. The safety net provider status, is that pursuant to
13 federal law?

14 A. Well, there is -- safety net provider is used in, for
15 instance, the 340B -- what is called the 340B legislation,
16 which specifically applies to nonprofit safety net providers
17 like AHF and affects at what price we can purchase
18 medications. It allows us to purchase medications for
19 patients at a discounted price.

20 Q. Can you talk a little bit about AHF's operations in
21 the United States?

22 A. Sure. We have been around for I think it is 31 years
23 now. Started in Los Angeles as an AIDS hospice organization
24 back in the days when HIV and AIDS was really a death
25 sentence. And then, as things got better, AHF opened up

1 clinics to treat patients with HIV and AIDS. And then we
2 consistently expanded so that now we've got over 60 clinics
3 in 15 states and the District of Columbia. We're taking care
4 of domestically about 35,000 patients. We've also got a
5 global program where we're in more than 40 countries. And
6 worldwide AHF is taking care of 1.1 million patients with
7 HIV/AIDS.

8 Q. In addition to the roughly 60 clinics, do you also
9 have a network of pharmacies?

10 A. Yes. Part of our model is that we have tried to
11 create a one-stop shopping for patients, and we've also
12 recognized the importance of the pharmacist-patient
13 relationship. And so as a result, most of our clinics,
14 unless they're very small and have a low census, have
15 embedded within them an AHF pharmacy co-located.

16 Q. Co-located?

17 A. Yes.

18 Q. And your position with AHF currently is what?

19 A. So I'm Chief Medical Officer. As that, I run AHF's
20 Domestic Department of Medicine, which means that I'm kind of
21 ultimately responsible for all of the clinical care that we
22 provide.

23 Q. And do you have firsthand knowledge of AHF's
24 business?

25 A. I'm sorry? AHF's?

1 Q. Business overall?

2 A. Yes. Yes. Again, I run the Department of Medicine,
3 but I am very familiar with our pharmacy business, our
4 managed care business.

5 Q. Do you serve on any executive committees?

6 A. Yes. I serve on -- the executive committees are the
7 highest level committees, and I serve on both managed care
8 exec and pharmacy exec at AHF.

9 Q. How long have you been the Chief Medical Officer?

10 A. It will be six years in August.

11 Q. When did you join AHF?

12 A. I joined AHF in September of 2011.

13 Q. And you're a practicing physician?

14 A. Yes, I am. I'm a physician specializing -- in
15 private practice -- specializing in HIV/AIDS since 1990.

16 Q. Are you a credentialed HIV/AIDS physician?

17 A. Yes. I'm credentialed as an HIV specialist by the
18 American Academy of HIV Medicine.

19 Q. In addition to your executive duties with AHF, do you
20 currently treat HIV/AIDS patients?

21 A. Yes, I still treat patients.

22 Q. Can you explain for the Court how the treatment of
23 HIV and AIDS has evolved from the time you began practicing
24 in 1990.

25 A. It's been a dramatic change. I mean, when I

1 started -- I really started seeing HIV patients during my
2 residency in internal medicine, which I did in Miami, which
3 was one of the epicenters of HIV. And back in those days, it
4 was really felt that everybody who was HIV-positive would
5 progress to AIDS and everybody with AIDS would die. And that
6 was pretty accurate. I mean it was just nothing but death
7 for many years. It truly was a death sentence. And we were
8 just trying to keep patients -- extend their lives initially
9 and, hopefully, give them slightly better quality of life.
10 But there was no ability to really control the disease
11 long-term in the early days.

12 Q. What is the current state of treatment that you're
13 seeing --

14 A. It is very different. It started to change in around
15 1996. And I would say it is really since the 2000s that
16 things have changed dramatically. Now the vast majority of
17 HIV patients can be placed on medication regimens, which
18 typically involve at least three drugs, and we can -- we
19 can't cure them, but we can get the virus suppressed to
20 undetectable levels in their bloodstream, and that allows
21 their immune system to repair and to stay relatively strong,
22 and these patients can remain now stable. It has become a
23 chronic illness.

24 Q. What is your purpose in testifying in these Tunney
25 Act proceedings today?

1 A. So we've got a model of care for HIV that works very
2 well, and it includes our coordination between our providers,
3 our clinics, our pharmacies. And frankly, I'm concerned that
4 we're going to see our model imperilled by this behemoth
5 merged organization and the power that it has.

6 Q. And let me just back up on the clinic. So you say
7 you have roughly 60. Are they served by physicians in those
8 clinics?

9 A. So we -- our medical providers are a combination of
10 physicians and what are called -- have been called
11 mid-levels, but the preferred term nowadays is advanced
12 practice providers. So those would be nurse practitioners
13 and physician assistants working under supervision of a
14 physician.

15 Q. And are the providers at these clinics credentialled?

16 A. Yes. It's a requirement of employment at AHF that
17 any provider who's not credentialled as an HIV specialist at
18 the time of hire has to become credentialled within 12 to 18
19 months of starting.

20 Q. What about the pharmacists that are employed at your
21 pharmacies; are they credentialled?

22 A. Yes. So the American Academy of HIV Medicine also
23 has a credentialing program for pharmacists, and our
24 pharmacists are all credentialled as HIV pharmacy experts.

25 Q. Now, can you talk a little bit about the health

1 insurance plans that AHF has.

2 A. So AHF's own plans you're talking about?

3 Q. Yes.

4 A. Okay. So what we have is, in California, Florida,
5 and Georgia, AHF created Medicare managed care plans that are
6 what are called SNPs or special needs plans. They're open
7 only to patients with an HIV diagnosis. Then, in California,
8 in addition, we have a Medicaid managed care plan.

9 Q. Can you expound a little bit more on what you call
10 the wrap-around services, the continuum of care that AHF
11 provides from the clinics to the pharmacies.

12 A. So we actually start even earlier with -- than the
13 clinics with this kind of, you know, comprehensive continuum
14 of care. We do more -- AHF does more HIV testing than
15 anyplace else in the world, anyone else in the world. So if
16 somebody tests positive for HIV at one of our testing sites,
17 they immediately become part of our linkage program. A
18 linkage counselor, who is somebody who's trained in HIV and
19 dealing with patients, immediately contacts the patient,
20 serves as support and education. And we have a standard that
21 anybody who tests HIV-positive is seen in one of our clinics
22 within 72 hours of their diagnosis. The linkage person will
23 literally take them by the hand and walk them into the clinic
24 if need be to get them initiated in care.

25 Once they're in the clinic, we practice

1 patient-centered, high-touch care. We provide these
2 wrap-around services that, again, most patients who at the
3 time their HIV diagnosis don't have private insurance or any
4 other funding source, so they get an appointment with what's
5 called a benefits coordinator to find out if they qualify for
6 typically the Ryan White Program, which is a payor of last
7 resort for patients with HIV or an ACA plan or a Medicaid
8 plan. And so we get them benefits that way. We
9 have -- because a lot of our patients have a lot of multiple
10 comorbidities and are medically very complicated, we have --

11 Q. What do you mean by comorbidities?

12 A. Other medical conditions that are -- not just HIV.
13 You see a higher rate of heart disease, diabetes, kidney
14 disease, liver disease; a lot of different things in patients
15 with HIV.

16 And so we have medical case managers, who are usually
17 RNs, to help coordinate the care for these patients so that
18 everything is being taken care of.

19 One of the things -- one of the other things that is
20 unique about AHF is that what we practice is what I call HIV
21 primary care. We discovered that patients just kind of
22 naturally adopt their HIV treater as their PCP or primary
23 care physician. So there's some places where there's someone
24 who manages the HIV using an infectious diseases doctor but
25 won't manage the cholesterol, the blood pressure, won't see

1 the patient if they've got a cold or the flu. We're the
2 primary care doctors as well as the HIV specialist for our
3 patients.

4 Q. Can you explain how important it is to make sure that
5 HIV/AIDS patients adhere to their medication schedule. Talk
6 about that.

7 A. I find frequently nowadays that -- I think people
8 think -- a lot of people think that something has
9 fundamentally changed about HIV as a disease, and it hasn't
10 changed. I mean, untreated, it is still going to kill the
11 vast majority of people who have the virus.

12 What's changed is that we have medications that can
13 now keep the HIV under control. These medications, though,
14 require a very high level of adherence. We know that, based
15 on studies, that people who take chronic medications for
16 other conditions, like say high blood pressure, that their
17 adherence to the medications is usually 70 to 80 percent.
18 Studies have shown that in HIV if you have less than a 95
19 percent adherence to the anti-retroviral medications that the
20 virus has the opportunity to activate, mutate, and become
21 resistant to the medications, and then they won't work
22 anymore. So adherence is a huge issue in this disease.

23 Again, we can't cure it, but if we keep the virus
24 suppressed, not only does the patient stay healthy, but
25 studies have shown the patient cannot transmit HIV to another

1 person. So there's not just a personal health issue for the
2 infected patient but a major public health issue as well.

3 Q. You mentioned anti-retrovirals. Can you just explain
4 that.

5 A. These are the medications that work through various
6 mechanisms to block HIV from replicating and infecting other
7 cells. So these are medications that are used only for HIV
8 treatment. They're often complicated medications with
9 potential side effects and drug interactions with other
10 medications. So when you're talking about anti-retrovirals,
11 you're really talking about the medications used to suppress
12 HIV.

13 Q. In this model that AHF has to treat HIV and AIDS,
14 does it work?

15 A. It works incredibly well. The CDC puts out data.
16 There's something called the Gardner Cascade, and it is named
17 after Dr. Gardner, and he did an analysis of the continuum of
18 care starting with how many HIV-infected persons there are in
19 this country to then how many of those people know their HIV
20 diagnosis, how many have engaged in care, how many have been
21 retained in care, and then ultimately how many have
22 their -- and in how many is the virus suppressed, which is
23 the goal. And numbers in the U.S. for that last step of the
24 Cascade show somewhere between 30 and 50 percent of HIV
25 patients in this country being consistently -- with their

1 virus being consistently suppressed. And at AHF our numbers
2 are closer to 85 percent suppression.

3 Q. So roughly double the average --

4 A. Yes.

5 Q. -- national average?

6 What are the factors that make for a successful model
7 would you say?

8 A. I mean, a big part of it is having high touch with
9 the patients. They have actually done studies on retention
10 and care amongst -- with HIV patients -- and have found that
11 the more what they call touch points between the clinic, the
12 staff in the clinic, the physician, you know, so forth, and
13 the patient, the more likely they are to remain in care and
14 remain on their medications. So that's a big part of what we
15 do.

16 But then we also have very specific things that are
17 very focused on adherence both to the anti-retroviral
18 medications and to medical follow-up. So we have -- the
19 pharmacy generates something called the 35-day report. And
20 if a patient has not been in to pick up their medications
21 within -- in the last 35 days, they track them down. And
22 they find them, and they find out what's going on.

23 The other thing is that, at AHF, nobody will leave
24 without their medications, no matter what the situation is.
25 It doesn't matter if they can't afford the co-pay. It

1 doesn't matter if they have lost coverage. We do not let
2 anything interrupt their care.

3 On the provider side, we have something called a
4 104-day report, which is similar. But typically, HIV
5 patients come in about every three months for blood work and
6 evaluation by a provider. So if patients haven't been in
7 within 104 days, then every provider every month is given a
8 list of the names of those patients and are expected to
9 personally call those patients and check on them and try to
10 get them back in to be seen.

11 Q. And how important is it for the physicians to be
12 specialists in HIV and AIDS for the treatment of AIDS?

13 A. That really is critical. Again, there are studies.
14 Published studies have shown that there's a direct
15 correlation between your risk of death from HIV and the
16 experience of your medical provider. And so we put a big
17 emphasis on making sure that our patients are -- I mean, our
18 providers are credentialed as specialists, that they keep up
19 with education. We have a monthly CME, continuing medical
20 education program, that our providers are -- they're
21 scheduled to block for it every month. It's live webcast to
22 every provider in the country.

23 Q. And can you talk a little bit about how AHF protects
24 the privacy of your patients.

25 A. Given that we are an organization that deals with

1 HIV, we are very, very focused on confidentiality. Though
2 the stigma associated with HIV is much less overall than it
3 used to be when I started in this, there's still a big
4 stigma. Obviously, people want their diagnosis kept very
5 confidential. So when we send out -- we ask every patient
6 when they first come in whether it is okay for us to call
7 them or text them, whether we can send them mail. And we
8 never identify on the mail that it is AIDS Healthcare
9 Foundation. We have -- a lot of our patients who are getting
10 medication through our AHF pharmacies have those medications
11 delivered, and we make sure that our delivery people -- they
12 have IDs, but it doesn't say anything about AHF. To maintain
13 confidentiality, sometimes patients who live with family or
14 roommates don't want meds delivered to the house. The driver
15 will literally meet them at a Starbucks, wherever they want
16 to meet to give them their medication so as to maintain their
17 privacy.

18 Q. Okay. Now I want to move to just talk a little bit
19 more about AHF's role in the various levels of the market.
20 You identified clinics, pharmacies, and health plans.

21 A. Uh-huh.

22 Q. So AHF competes in the pharmacy market with CVS; is
23 that correct?

24 A. Correct.

25 Q. And they compete with Aetna as a health plan;

1 correct?

2 A. Yes.

3 Q. And they are a provider, they participate as a
4 provider through the retail clinics; correct?

5 A. Yes.

6 Q. And as a pharmacy, AHF is a provider to CVS/Caremark
7 as a PBM; correct?

8 A. Yes.

9 Q. You heard the testimony of Dr. Sood about the
10 consolidation generally in the healthcare industry. Do you
11 generally agree with what Dr. Sood said about the
12 consolidation and concentration levels --

13 A. Yes --

14 Q. -- in the healthcare industry?

15 A. -- I do.

16 Q. Have you seen that even in your 30 years in the
17 business, have you seen those trends of concentration
18 increasing over the years?

19 A. Definitely. I mean I'm not quite sure how many years
20 ago it was now, but we saw it with United and OptumRx
21 becoming a single conjoined entity. I don't know if that was
22 a merger or purchase or whatever it was. And almost
23 immediately we saw our patients being told that they could no
24 longer use the AHF pharmacy; that they were being forced into
25 mail order programs for their medications. And it was a real

1 disruption of their continuity of care and emotionally was
2 very difficult for a lot. I had patients in tears
3 about -- our patients, just as they develop a strong
4 relationship with the providers, they develop an equally
5 strong relationship with the pharmacist and the pharmacy
6 staff.

7 Q. In that instance, what was Optum/United telling these
8 AHF patients in terms of whether they needed -- had to use
9 mail order?

10 A. So they were being told that they had to start
11 receiving their meds by mail order. And we -- I personally
12 started dealing with numerous problems associated with that.
13 I mean, one of the really frustrating things that I dealt
14 with was -- you know, there would be a screw-up or something
15 wouldn't get processed properly at the PBM, and a patient
16 wouldn't receive his or her HIV medications, and I would get
17 on the phone with the PBM and say, you know, get the problem
18 straightened out. And say, this patient is going to be out
19 of medication tomorrow, you need to overnight this to the
20 patient.

21 And they would say, no, it takes 10 days.

22 And I'm like, but this is HIV. You don't understand
23 it. They can't be off their medication for 10 days. That's
24 dangerous. It puts them at risk of developing resistance to
25 their medications.

1 Well, that's our policy.

2 You know, it was things like that.

3 And we had patients who were trying very hard to opt
4 out of the mail order, and we were told at various times that
5 patients had the right to opt out. But whenever they tried
6 to do it, it never seemed to happen. Either they were told
7 that they couldn't opt out despite what we had been told or
8 there were so many barriers to it that it just wouldn't get
9 done. So it was very problematic.

10 Q. Other than Optum and United, are there other PBMs
11 that require the mail order?

12 A. Well, increasingly, what we have been seeing is a
13 lack of -- well, what we're seeing is that they're taking
14 away -- pharmacy choices being taken away from patients, and
15 they're being told that they have to use a particular
16 pharmacy or they have to use a particular mail order program.
17 Most of our -- sometimes there is a bit of a financial
18 benefit to patients if they use mail order. Now, some places
19 they'll get three months' worth of medication but only pay
20 two months' worth of co-pays. But almost a hundred percent
21 of our patients were more than willing to pay the additional
22 co-pay in order to stay with our pharmacy and that
23 relationship.

24 Q. And are there instances where the mail order invades
25 the privacy of the HIV patient?

1 A. That was another problem that we encountered where
2 medications were just left at a home where there might have
3 been roommates or family members. We had situations where
4 patients reported that the medications were -- because nobody
5 was home that they were delivered to a neighbor and there was
6 a note to pick it up from a neighbor. We had one very tragic
7 situation in Florida where medication was delivered to a
8 home. The family opened up the package, found out that their
9 son was HIV-positive, and threw him out of the house.

10 Q. Now, if you could explain a little bit more about
11 this increasing concentration in the industry. Are there
12 other effects?

13 You mentioned the night Optum/United example, which
14 was a integration circumstances. But has the consolidation
15 affected individual pharmacies like AHF and others?

16 A. It definitely has. You know, these PBMs are -- they
17 seem to increasingly be assessing higher what are called DIR
18 fees, direct and indirect, remuneration fees, with very
19 little transparency as to what were really being assessed.
20 It's clawed back millions of dollars from us, and those are
21 dollars that would normally be used to support our programs
22 and our mission as a safety net provider. I mean 96 cents of
23 every dollar generated in our pharmacy is poured right back
24 into our clinical programs.

25 So, you know, we're seeing more and more of that to

1 the point that we're taking a big financial hit. And I'm not
2 an expert on DIR fees, but I just -- some of them are
3 assessed for what the PBM says are AHF not meeting certain
4 quality metrics that, frankly, seem to be arbitrary and
5 capricious. Like, we've had money taken back because certain
6 patients weren't on a Statin, a cholesterol-lowering
7 medication. But there are times that you can't use Statins
8 with HIV medications. There are going to be life-threatening
9 drug interactions. The other thing is I just don't
10 understand how you can hold the pharmacy responsible for
11 something that they can't prescribe medications. That's the
12 physician. Anyway, things like that that are very
13 frustrating.

14 Q. So these fees are where the PBM is actually clawing
15 back money that had already gone to the pharmacy later?

16 A. Yes. And I think with AHF it is into the millions.
17 And the thing is that they can claw back way after the
18 adjudication of the claim. They can come back like a year
19 later and ask you for significant sums of money back.

20 Q. Have you also seen an effect on the reimbursement
21 rates that you're getting from PBMs?

22 A. The other thing -- I mean, we certainly aren't alone
23 in this -- but some of the -- the reimbursement rates have
24 dropped, and at times to a point where it doesn't even cover
25 the cost of our medication, of the medication that we

1 purchase. So, obviously, that's another big issue.

2 Q. And why can't AHF just decide to go to another PBM?
3 What's --

4 A. So, if you take a plan like our managed Medicare
5 plan, which, like I mentioned, is a special needs plan, it is
6 especially designed for people with HIV, so it's way
7 different from a regular Medicare Advantage plan in that
8 sense. But we still are required by CMS, our managed care
9 plans have to meet certain criteria. And one of them is
10 access to pharmacies where patients can get their
11 prescriptions filled that are within a certain distance and a
12 certain time of travel from the patient. And we're a small
13 network of pharmacies. So to have something that is
14 convenient for our patients that meets CMS requirements, we
15 need to be contracted with a large chain like CVS which has
16 got locations everywhere.

17 Q. So, basically, you have no choice, is that what
18 you're saying?

19 A. Yes.

20 Q. Okay. Can you talk about how PBMs have narrowed
21 networks.

22 A. So the other thing that PBMs have done is that
23 they've created what are called narrow networks of
24 participating pharmacies so that they may have CVS in there
25 but have hardly anybody else that is allowed to participate,

1 so excluding independent pharmacies from participating, from
2 being preferred providers under the PBM.

3 Q. And Dr. Sood, you heard his testimony, he talked
4 about a lack of transparency in the PBM market.

5 A. Yes.

6 Q. Is that something that you have found?

7 A. Yes. Again, I'm not the pharmacy budget expert, but
8 I will tell you from sitting on the pharmacy exec committee
9 and so forth, I mean, one of the frustrations is that there
10 is no transparency. You don't know what deals the PBM has
11 worked out for rebates, and you don't have any clear criteria
12 about how they're assessing these DIR fees. Yeah, it's like
13 a black box that you can't see through.

14 Q. And there has also been public discussion about how
15 PBM contracts have, quote/unquote, gagged pharmacies.

16 A. That has certainly been in the news where some of the
17 PBM contracts contain essentially gag orders on their -- say
18 you've got under your plan a co-pay for a medication that is
19 \$10 but you're getting a very common generic, and you could
20 get the entire -- you could just pay the cash price and get
21 it for like \$2. You know, pharmacists were prevented by
22 several PBMs from informing the patient of that. So, yeah,
23 those -- and you know, in my experience, what the PBMs have
24 done is they have really added a layer of bureaucracy,
25 another layer between provider and patient. And certainly,

1 from a care side, clinical care side or a patient side, I see
2 zero benefit and only harm, to be honest.

3 Q. What was the promise of PBMs when they entered the
4 market?

5 A. I think it was that they were going to reduce prices
6 to patients, to consumers, was one of them. And again, I
7 haven't seen that. I mean, in fact, I have seen -- I had one
8 situation where the PBM moved all of the HIV medications to
9 its highest co-pay tier, a tier of five, and then some of the
10 plans were actually -- that were contracted with the PBM were
11 actually setting the patient responsibility portion to
12 50 percent of the retail cost of the medication. I had a
13 patient who called me up in tears because he went to pick up
14 his medication and suddenly they were telling him it was \$900
15 a month, which was half the retail cost.

16 Q. Now, there has also been public discussion of what
17 they call squeeze-and-buy strategies by PBMs. Can you tell
18 the Court what that's about.

19 A. So my understanding is that PBMs either, you know,
20 through DIR fees and/or lowered reimbursements, that they
21 squeeze an independent pharmacy, smaller pharmacy chain to a
22 point that it is no longer economically viable for them to
23 continue to operate, and then they kind of buy them out at
24 pennies on the dollar. There was just an article the other
25 day I read about it with a pharmacy or pharmacy group called

1 Premier Specialty Pharmacy, I think, and they basically said
2 in this article, we can no longer be viable with what's
3 happened to our reimbursements.

4 Q. Who did Premier sell out to?

5 A. CVS.

6 Q. I want to talk about the effects of the merger.

7 So do you have any concerns? I mean, you said
8 initially you were concerned about the merger and that's why
9 you're here. Can you tell the Court what specifically your
10 concerns are with respect to the merger as it is currently
11 constituted?

12 A. You know, my concern is that AHF, our pharmacies will
13 be squeezed the way these others have; that either they won't
14 be preferred pharmacies for patients under their insurance or
15 they'll be excluded completely from using the AHF pharmacy.
16 I'm concerned that it really cuts into these decreases in
17 reimbursement and this clawback of fees.

18 THE COURT: Doctor, let me ask you a question about
19 that.

20 THE WITNESS: Sure.

21 THE COURT: Who is it that sets these kinds of
22 requirements? Is it the insurance plan or the PBM that's
23 requiring --

24 THE WITNESS: So --

25 THE COURT: First of all, defining something as the

1 preferred source of the drugs.

2 THE WITNESS: Uh-huh.

3 THE COURT: And secondly, where they can get the
4 drugs other than your pharmacy.

5 THE WITNESS: Right. And I believe that -- if I'm
6 wrong, please somebody correct me -- but I believe that
7 really is set by the PBM, to a large extent. I guess by
8 the -- I'm not exactly -- what role the insurer has, but I
9 believe it is mostly the PBMs that set up the networks of
10 participating pharmacies and so forth, and make these
11 decisions about co-pays and what patients are going to have
12 to pay and where they can access their -- and how they can
13 access their medications.

14 THE COURT: Say your pharmacies aren't designated as
15 preferred providers, then they have to go to -- do they list
16 who the preferred providers are?

17 THE WITNESS: Yes. I mean, they usually will. I
18 mean, so it may not completely bar a patient from going to a
19 nonpreferred provider, but there's lots of economic
20 disincentives to do that.

21 THE COURT: So the co-pay will be a lot higher --

22 THE WITNESS: Exactly.

23 THE COURT: They'll charge much more for the drug --

24 THE WITNESS: Correct.

25 THE COURT: So you have seen that firsthand?

1 THE WITNESS: Yes.

2 You know, I think that a lot of people don't realize
3 that there is, and should be, a relationship between -- in
4 people with chronic illnesses, serious chronic illnesses --
5 that there is, and should be, a relationship between the
6 pharmacist and the patient. And I think we've demonstrated
7 at AHF how important that relationship is.

8 I mean, very frequently I find out for the first time
9 that a patient is having side effects or problems with
10 medication, not from the patient telling me, but the patient
11 has told the pharmacist, who then tells me. Then the
12 pharmacist and I work together to resolve the problem.

13 And in a condition like HIV, the pharmacist is really
14 important in educating the patient about the importance of
15 adherence.

16 And one of the other things with PBMs is that when
17 you call a PBM, you have no idea who you're going to speak
18 to. There is no ongoing relationship. I've had situations
19 where I've spoken to a pharmacist, and they can't even
20 pronounce the names of the drugs I'm talking about. They
21 have no experience with HIV medications. And it is very much
22 kind of a -- it is like calling customer service a lot of
23 places, and you get caught in voice mail hell.

24 THE COURT: Okay.

25 BY MR. BARLOW:

1 Q. Is it your concern that the merger will affect how
2 Aetna's patient population will be directed to certain
3 pharmacies?

4 A. Well, I mean, I would think that is likely to happen
5 and certainly is a concern. Anything that is going to pull
6 patients out of our pharmacy, where they've got specially
7 educated pharmacists and staff, they've got a very close
8 personal relationship, it's -- we have -- in every one of our
9 clinics we start the day with what is called a morning huddle
10 where we discuss all of the patients coming in that day. And
11 the pharmacist is part of that morning huddle. I mean that's
12 how integrated they are into our care model.

13 Q. And so what happens if all of the Aetna patients are
14 directed to CVS pharmacies and away from specialty providers
15 like AHF? What is the practical effect of that?

16 A. So, you know, I think that you're going to see more
17 patients getting sick, frankly. I mean, again, you can't
18 walk out of a CVS if you don't have your co-pay. And we
19 especially seek out -- seek to place clinics in places where
20 patients don't have great access to care, where they're
21 economically disadvantaged, and so forth. But we make sure
22 that they always get their meds; that if there's a co-pay, it
23 is always the lowest tier co-pay; that they've got access all
24 the time to pharmacists for education.

25 I also know that CVS isn't going to have a 35-day

1 report and call patients to ask why they haven't been in to
2 pick up their medications.

3 The other thing that I might mention is that
4 increasingly insurers are requiring what are called prior
5 authorizations for medications. So, in other words, before
6 they will cover a medication, you have to do a prior
7 authorization, which often involves doing this whole medical
8 justification. And you'll find doctors nowadays who really
9 are -- you know, take the attitude this isn't really my
10 problem. You know, I ordered the medication. This is what I
11 thought you needed. Take it up with your insurance company
12 if they don't want to pay it.

13 But what we do at AHF, and really headed by the
14 pharmacist, is that we aggressively work to get that prior
15 authorization approved. So we act as an advocate for the
16 patient, as well.

17 Q. Is there also a concern of the merger that Aetna
18 patients going to MinuteClinics? Is that something that
19 you're concerned about?

20 A. You know, I have read that part of this integrated
21 care concept with this merger is that now you've got all of
22 these clinics around the company that are now going to be
23 part of the patient's care network. Look, I think a
24 MinuteClinic is fine if you need a particular vaccine or if
25 you have got a cold or something like that. I think it would

1 be a disaster if HIV patients were encouraged to seek medical
2 care at a MinuteClinic. I can, again, tell you that HIV is a
3 highly specialized -- I think this is true for any chronic
4 illness. I don't know that HIV is unique in this sense. But
5 you know, what you're going to get is fragmented care by
6 people who don't understand the disease and who don't
7 understand the risks of drug interactions, adherence, side
8 effects, all that kind of stuff.

9 Q. Let's take as an example a flu shot?

10 A. I'm sorry?

11 Q. A flu shot.

12 What is the effect of an HIV/AIDS patient getting a
13 flu shot at a MinuteClinic?

14 A. There are certain types of flu shots that HIV
15 patients are not supposed to receive because of weakened
16 immune system. There are certain types of -- as a general
17 rule, live-virus vaccines are usually not given to HIV
18 patients because their weaknesses in their immune system
19 could create particular side effects. We are very aware of
20 those kinds of issues. I highly doubt that a MinuteClinic is
21 -- you know, they probably have whatever flu shot they're
22 giving, and I kind of doubt that they would be aware that
23 there are certain types that should not be given to patients
24 with HIV.

25 Q. In terms of privacy, you spoke about that earlier,

1 are you aware of instances where both CVS and Aetna have been
2 sued for violating privacy of HIV patients?

3 A. I know they have both been sued over separate
4 instances of revealing patients' HIV status.

5 Q. Now, you heard Dr. Sood testify about what he called
6 about input foreclosure. Do you remember his testimony
7 there?

8 A. Yes.

9 Q. The idea being that there's a risk after the merger
10 that there will be a degradation of care, so to speak, from
11 the pharmacy, or the PBM level down to the health plan level.
12 Is that something you're concerned about?

13 A. Yes. I mean, for all the reasons I have already
14 mentioned, it is a very different setup than what our
15 pharmacies have.

16 Q. Well, for instance, what if one of your managed care
17 plan patients was forced out of that plan into say an Aetna
18 Medicare Advantage plan? What would be the effect of that?

19 A. Well, first, the biggest impact is that these
20 Medicare Advantage plans are not special needs plans. By
21 virtue of the fact that we have a designation that our plans
22 are designated as SNPs or special need plans, you know,
23 patients actually are not limited to the enrollment period
24 with Medicaid Advantage. They can come on and off our plan
25 as needed. Our co-pays for HIV medications are set at the

1 lowest-tier co-pay. There's -- they go from -- they could be
2 assigned to a PCP who was just most likely a general
3 internist or family practitioner who probably knows little to
4 nothing about HIV treatment. A lot of concerns.

5 Q. And that could happen if post-merger the CVS pharmacy
6 services were denied to a health plan participant?

7 A. Yes. I mean, I don't know that under CMS rules that
8 we can meet CMS -- our plans can meet CMS rules if we aren't
9 contracted with somebody like a CVS.

10 THE COURT: Can you give me some idea, Doctor, of one
11 of your chronic patients who has HIV and is on this regimen
12 of multiple medications --

13 THE WITNESS: Yes.

14 THE COURT: -- what would the monthly charge for
15 medication be to him in terms of his co-pay and in terms of
16 the insurer --

17 THE WITNESS: Right.

18 THE COURT: -- the retail amount --

19 THE WITNESS: So I would say that --

20 THE COURT: -- roughly.

21 THE WITNESS: -- a regimen would run somewhere
22 between \$1,500 and \$3,000 a month in terms of the cost of the
23 medication.

24 THE COURT: That is retail? Or wholesale?

25 THE WITNESS: That's what -- if a patient came in and

1 needed to buy it cash, that's what they would pay.

2 THE COURT: Okay.

3 THE WITNESS: And the co-pays vary a lot based on the
4 patient's plan. But I'm pretty certain that all insurance
5 companies, other than AHF, have HIV medications on the
6 higher-tier co-pays, which mean higher out-of-pocket cost.
7 In fact, with that patient I mentioned who suddenly -- he
8 went up to a tier where he was responsible for 50 percent of
9 the retail cost of the medication, you know, I had
10 conversations with the PBM, and they were very surprisingly
11 honest with me and said: We want to put these meds on a
12 higher tier because we don't want anything that is going to
13 actually encourage HIV patients to choose our plan. We don't
14 want to make it appealing to them because they're high-cost
15 patients.

16 THE COURT: So what would the lowest co-pay be, how
17 much a month, roughly? 500?

18 THE WITNESS: No, it probably is less -- again -- so
19 you've got some patients who are on plans that they have a
20 set co-pay amount. So it could be \$50 or \$75 or something
21 like that. This was a particularly unusual setup, yeah,
22 yeah.

23 THE COURT: You've got about five minutes left.

24 MR. BARLOW: Okay.

25 BY MR. BARLOW:

1 Q. Just to wrap up, you've heard the benefits of the
2 merger that have been put forth by the parties. One of them
3 that's been talked about is that the merger will lead to
4 increased compliance with treatment plans, medication therapy
5 management.

6 Do you have any reaction to that claim?

7 A. I don't see that. I honestly can't even conceive of
8 how that would be improved. It just seems that there would
9 be fragmentation of care.

10 Q. Have you reviewed the DOJ's proposed Final Judgment?

11 A. I did read it, yes.

12 Q. In your view, is the approval of the proposed Final
13 Judgment in the public's interest?

14 A. Personally, I don't think so because it doesn't
15 address these particular issues. And I'm afraid that without
16 addressing them that we will end up with a very uneven,
17 unfair playing field that will make it hard for AHF to
18 compete. I think that, you know, given a level playing
19 field, I think that we can compete, because based on our care
20 model and our personal service, and you know, I think
21 patients choose to stay with us, to use our plan, but I'm
22 worried that that won't be enough because it won't be an even
23 playing field.

24 Q. Would there be an alternative to approval of the
25 judgment that in your judgment would alleviate your concerns?

1 A. It would be great to see if there were guarantees of,
2 you know, pharmacy choice and that patients and -- and also
3 that our plans would continue to be able to participate as
4 preferred providers in the -- like, in the CVS pharmacy
5 network. But I would feel a lot more comfortable if there
6 were language that did that.

7 MR. BARLOW: That's all I have, Your Honor.

8 Thank you.

9 THE COURT: Let me ask one last question. The
10 insurance programs that you offer as part of your services --

11 THE WITNESS: Yes.

12 THE COURT: -- those, like your institute itself, is
13 a not-for-profit; is that correct?

14 THE WITNESS: That is correct.

15 THE COURT: So the profit incentive or motive that
16 other companies that offer insurance programs --

17 THE WITNESS: Right.

18 THE COURT: -- is not present in yours?

19 THE WITNESS: That's correct. Yeah.

20 THE COURT: Very good.

21 Thank you, Doctor. You can step down.

22 THE WITNESS: You're welcome.

23 THE COURT: We will take a 15-minute recess, and then
24 we'll hear the final witness for today when we return.

25 So we stand in recess.

(Recess taken)

THE COURT: Call your witness.

3 MR. BALTO: Your Honor, David Balto on behalf of
4 Consumer Action United States Public Interest Research Group,
5 we call Dr. Diana Moss as a witness.

6 THE COURT: All right. Come up and be sworn.

DIANA L. MOSS,

DIRECT EXAMINATION

BY MR. BALTO:

12 Q. Dr. Moss, please state your name and spell it for the
13 Court.

14 A. My name is Diana L. Moss, D-I-A-N-A, L, M-O-S-S.

15 Q. Diana Moss, can you please give the Court an overview
16 of your testimony for today.

17 A. Yes. My testimony today will cover two basic themes.
18 One is comments and observations on the horizontal aspects of
19 this proposed merger between CVS and Aetna and the
20 consolidation in the standalone PDP markets and the proposed
21 remedy and whether we think that remedy will likely be
22 effective in preserving competition. And then the second
23 part of my comments will address very serious competitive
24 concerns that were not addressed by the government, and that
25 includes two forms of vertical foreclosure and their effects

1 on competition and consumers.

2 Q. Dr. Moss, can you please introduce yourself to the
3 Judge and give him a bit of your biographical background,
4 including on merger divestitures.

5 A. Certainly. I am the president of the American
6 Antitrust Institute. We have been around for about 20 years,
7 a progressive think tank advocating for competition that
8 protects consumers and businesses in society. We do that
9 through legal, economic, and policy work in the form of
10 research, education, and advocacy.

11 I am a Ph.D. economist, and have worked in the area
12 of industrial organization for almost all of my career in a
13 number of sectors, including healthcare.

14 AAI has been very active in the healthcare area. We
15 have filed a number of letters to the agencies, the FTC, DOJ,
16 the states, white papers, letters. We have testified in
17 front of Congress, in front of various commissions on the
18 competitive and consumer effects of healthcare consolidation.

19 Most recently, I have turned my research to remedies
20 in merger cases and have co-published an article with John
21 Kwoka -- Professor Kwoka is at Northeastern University -- on
22 issues and problems that we have identified with different
23 types of merger remedies, including conduct remedies versus
24 structural remedies, and recently had a piece out in *Global*
25 *Competition Review* in their *Guide to Merger Remedies*.

1 Q. Thank you.

2 By the way, you have been a public servant in the
3 past; isn't that correct?

4 A. I have been a public servant. I was at the Federal
5 Energy Regulatory Commission for about six years, where I
6 coordinated the Commission staff work on electricity mergers.

7 Q. Dr. Moss, please tell the Judge about AAI's
8 healthcare competition expertise.

9 A. So, as I said just a minute ago, we have a diverse
10 array of resources through our advisory boards, through our
11 staff expertise, with expertise in law, economics,
12 institutional issues, and public policy. And much of that
13 has focused on a variety of industries, including healthcare,
14 where we have been very active in promoting competition and
15 vigorous review by the federal and the state -- federal
16 agencies and the states to look at these mergers in
17 healthcare at all levels of the supply chain because we have
18 really grave concerns about their effects on competition and
19 on consumers and workers.

20 Q. What is the specific advocacy that AAI did on
21 CVS-Aetna?

22 A. So we submitted a letter back in March of 2018 to the
23 U.S. Department of Justice, Antitrust Division, unpacking the
24 vertical aspects of the CVS-Aetna merger. We also filed
25 Tunney Acts in December of 2018 in this Tunney Act

1 proceeding.

2 Q. Can you give the Judge a brief picture of the kind of
3 healthcare advocacy AAI does; studies, reports, things like
4 that?

5 A. So our analyses are fairly deep dives into legal,
6 economic, policy, and institutional analysis. We take weeks,
7 if not months, to produce a white paper, which is typically a
8 heftier, beefier analysis. And we do that on a regular
9 basis. We choose our cases very carefully, cases that we
10 believe raise really seminal issues of law or policy or
11 economics.

12 And I'm not shy about saying that I think that AAI's
13 work is generally regarded as independent and objective and
14 very high quality.

15 Q. Dr. Moss, have courts relied on AAI's advocacy in the
16 past?

17 A. I believe that to be true. And we have been cited by
18 courts in a number of areas, including our amicus briefs, our
19 white papers, and letters in a variety of cases. Most
20 recently cited or referred to as a titan in the antitrust
21 arena, something that we were very gratified to hear.

22 Q. Thank you.

23 Dr. Moss, given your expertise in antitrust and
24 healthcare, what are the important lessons for the Court
25 today from what you have heard from Dr. Sood and

1 Dr. Wohlfeiler's testimony?

2 A. So I think there are three major takeaways or
3 observations so far that I would like to offer to the Court
4 about this particular merger and consolidation in healthcare
5 more generally.

6 I would like to emphasize that we are really at an
7 inflection point in consolidation in the healthcare
8 industries. There has been sweeping and massive
9 consolidation in all levels of the healthcare supply chain;
10 in hospitals, in pharmacy benefit manager markets, in retail
11 pharmacy markets, in health insurance. What we have moved
12 from is pretty vigorous competition by standalone rivals at
13 each level in the supply chain. We have moved from that
14 model of well-ventilated, competitive markets where rivalry
15 produces the low prices and the high quality and innovation
16 for consumers. We've moved from that to a system where we
17 now have vertically integrated platforms of insurers and
18 pharmacy benefit managers and pharmacies. For example,
19 Express Scripts-Cigna just went through. We have
20 UnitedHealthcare and Optimum as a vertically integrated
21 insurer and PBM. We now have CVS-Aetna on the table as yet
22 another vertically integrated entity. I have seen mention in
23 the press of Centene and WellCare merging in another vertical
24 combination.

25 So what this does is it fundamentally changes the

1 structure of the industry, and it changes the incentives and
2 the abilities of these firms to compete hard on price and
3 quality, because through vertical integration, they have
4 incentives, much of which we have heard about today from
5 Dr. Sood, incentives to foreclose their rivals or to make it
6 difficult for their rivals to compete. So having a bunch of
7 vertically integrated firms -- and it is not even a bunch, it
8 is just going to be a few when this is all over --
9 unfortunately have very conflicted incentives to promote
10 competition, to serve and deal with their rivals at arm's
11 length, and that raises serious issues for consumers and
12 competition.

13 The second point I would like to make is that this is
14 really a very high-stakes game. Not only are consumers
15 implicated by the CVS-Aetna merger, but taxpayers are
16 implicated through the Medicare Part D and low-income subsidy
17 program. We have high-risk individuals, as we just heard
18 from the previous witness, who are potentially in danger.
19 And these are important parts of consumers' pocketbooks.
20 Insurance premiums are an enormous part of a pocketbook or
21 family spending. Drugs costs are an enormous part of
22 spending for healthcare providers. And I believe drug costs
23 are approaching about 20 percent of total healthcare
24 expenses.

25 We also have a quality issues. This is not just

1 about price and higher premiums and higher drug prices and
2 costs, but it is about quality. It is about disease
3 prevention. It is about keeping mortality rates down. It is
4 about innovation, innovating new technologies, new drugs, new
5 business models to serve competition and consumers.

6 So I just want to emphasize the price and the
7 non-price dimensions.

8 Finally, the third point or takeaway, and Dr. Sood
9 spoke to this really terrifically well, is high concentration
10 in markets should be given a significant amount of weight.
11 And it is a strong -- creates a strong presumption of
12 illegality under Section 7, which is an incipency doctrine,
13 as we know. And the reason why concentration is so important
14 here is in regard to consolidation in these PDP markets and
15 the requirements that creates for a very effective remedy to
16 ameliorate those concerns.

17 But when we turn to the vertical issues, it is also
18 extremely important to realize that high concentration in PBM
19 and pharmacy markets and also in health insurer markets
20 really limits choices for consumers to switch away from a
21 company that might be engaging in anticompetitive conduct.

22 So we don't need a lot of rocket science and
23 bargaining theory. This is pretty simple stuff. When you
24 have markets that only contain two or three dominant firms,
25 rivals, that really limits the ability for consumers to

1 switch, or any other participant in the market to switch away
2 from a firm that is vertically integrating or horizontally
3 integrating.

4 Q. Dr. Moss, let's spend a moment on that difficulty of
5 switching. So let's say that tomorrow there is a new policy
6 suggested, like Dr. Wohlfeiler suggested. Why can't a
7 consumer just sort of pick things up and move from one
8 insurance plan to another plan?

9 A. Well, the most obvious reason is because they're
10 aren't many options. Right? If you can't deal with CVS,
11 which is essentially a "must have" pharmacy network for many
12 insurers and there are very few options to turn to, then that
13 limits the opportunities.

14 Secondly, there is in many cases brand name loyalty
15 that creates a lock-in effect for some consumers, health
16 insurers, for example, in preventing switching. But,
17 fundamentally, when you have very few rivals in a market,
18 economic theory and evidence shows that higher levels of
19 concentration contribute to either following behavior by
20 firms or coordination between firms, which results in higher
21 prices and lower quality.

22 So consumers are really disadvantaged by tight
23 oligopoly markets where you just have a few rivals.

24 Q. Dr. Moss, let's focus on the PDP market. Why is
25 concentration so crucial in this market?

1 A. So in the PDP market, I would note that the
2 government, in its complaint -- I'm sorry -- the competitive
3 impact statement actually led with the statement that
4 competition is critically important in these PDP markets.
5 They say Congress designed the Medicare Part D program to
6 rely on competition --

7 THE COURT: Slow down.

8 THE WITNESS: -- among multiple plan sponsors.

9 Sorry.

10 PDPs are really, really increasingly important to
11 consumers. There's been 6 percent year-over-year growth in
12 Medicare Part D enrollments from 2006 to the present.
13 There's been an 18 to 30 percent growth in Medicare's share
14 of U.S. retail prescription drugs spent between about the
15 same period of time. So the Medicare Part D PDP plans are
16 increasingly important to consumers, particularly seniors,
17 low-income consumers, at risk-types of market participants.

18 We're concerned that average monthly premiums have
19 escalated rapidly, especially since 2015. There's been an
20 11 percent increase in premiums for standalone PPDs, and a 53
21 percent increase in premiums for low-income-subsidy
22 enrollees. Those are really, really significant increases in
23 premiums for populations, consumer populations, that are at
24 risk.

25 The other reason why concentration is so critically

1 important is because when you have a market that is dominated
2 by entrenched large firms and a very small fringe of tiny
3 firms, much like we see in the PDP markets, then it is really
4 hard for those smaller firms to inject any competitive
5 discipline in the market. They need access to financial
6 resources. They have to engage in multi-year planning. They
7 need scale. They need personnel. They have to contract with
8 pharmacies and other providers.

9 So, unfortunately, with highly concentrated markets,
10 as we see in insurance and in pharmacy and PBMs, we just
11 don't have smaller firms that have the heft and the ability
12 to inject competitive discipline.

13 Q. What are the obstacles for those smaller firms to
14 effectively expand in the PDP market?

15 A. I think they're very limited. And we have seen
16 failures of smaller firms to be able to enter. In the case
17 of the CVS-Aetna merger and the Express Scripts-Cigna merger,
18 where we are seeing more and more vertically integrated
19 platforms, that will raise entry barriers significantly
20 because firms can't enter at just one level anymore. So a
21 firm can't have an innovative online pharmacy model and
22 really effectively enter without having integration into a
23 base of insurance customers, for example.

24 So all of this consolidation in the industry,
25 including this merger, has really raised barriers to entry

1 for smaller market participants.

2 Q. Do those factors lead to further consolidation? Do
3 they in effect force firms to consolidate recognizing that
4 they can't expand?

5 A. Yes. I think that firms in a market where you have
6 just a few entrenched dominant firms and a very small fringe
7 of struggling rivals, I think it creates a scenario where
8 small firms are more easily picked off by the larger firms,
9 which creates yet another wave or another cycle of
10 consolidation.

11 Q. Let's talk about how highly concentrated the market
12 is if this acquisition is consummated.

13 A. So we're talking about PDPs, PDP markets. So
14 Dr. Sood I think has done a really terrific job of
15 highlighting the high levels of market concentration in
16 multiple regions under the PDP plans.

17 I believe the DOJ's complaint states that 12 Part D
18 regions, which is about 75 percent of the relevant geographic
19 markets, will result in large increases in concentration.
20 CVS-Aetna would account for more than 35 percent of the
21 low-income-subsidy-eligible beneficiaries in an additional
22 nine regions.

23 So, clearly, the merger results in anti- -- will
24 likely result in anti-competitive effects and anti-consumer
25 effects in these PDP markets, and is really presumed to

1 enhance the market power. So that's where this strong
2 presumption of illegality or the structural presumption of
3 illegality comes in here.

4 Q. Let's spend a few minutes, Dr. Moss, talking about
5 whether the effects from increased concentration or other
6 forms of anti-competitive harm. We've talked a bit about
7 price. I presume the witnesses tomorrow will say there is no
8 price effect.

9 What is your response to that?

10 A. Well, I think all of the empirical evidence that
11 Dr. Soot has cited and that I have certainly seen is that
12 premiums will increase as a result of consolidation. And
13 quality may well go down as a result. There may be -- there
14 may be a degradation in coverage. There may be a degradation
15 in terms of the drugs that are offered in the plans. There
16 may be fewer incentives, for example, to protect consumers',
17 subscribers' privacy. That is a sort of a quality
18 competition issue. And certainly much less pressure to
19 innovate in terms of providing better service, new products,
20 faster to market.

21 So I think both the price and the non-price effects
22 from a highly concentrated merger like this in the PDP
23 markets is really a very serious concern.

24 THE COURT: The non-price effects include
25 availability of drugs, more readily available?

1 THE WITNESS: Absolutely, yes.

2 THE COURT: So putting price aside, which is
3 obviously one barometer of evaluating whether it is in the
4 public interest or not --

5 THE WITNESS: Yes.

6 THE COURT: -- availability or lack of availability
7 to drugs --

8 THE WITNESS: Right.

9 THE COURT: -- what would be probably next most
10 important after that in the non-price?

11 THE WITNESS: From a non-price effect?

12 So availability of the drugs. Is the coverage in
13 terms of the portfolio or the formulary appropriate for the
14 subscribers? Are there drugs that are in demand? I think
15 there are fewer incentives with less competition to innovate
16 on newer, better business models or delivery systems for
17 drugs to really bear down on efficient contracting practices
18 with drug companies and other members of the supply chain.

19 So the non-quality aspects of competition I think are
20 really, really as critical as the price effects of
21 competition.

22 BY MR. BALTO:

23 Q. Let's go back -- just to fully inform the Court,
24 let's go back to Dr. Wohlfeiler's testimony and recall what
25 he testified about, about the relationship between the

1 pharmacist and the patient, the advice that they receive, or
2 the concerns about privacy.

3 Are those kinds of concerns cognizable? Are those
4 the kinds of concerns that the Court should look at?

5 A. I believe the Court should legitimately look at those
6 concerns.

7 What we have found through research is a record of,
8 for example, independent pharmacies having a much harder time
9 competing as a result of practices by PBMs in a highly
10 concentrated market. And consumers have lost, for example,
11 access to independent pharmacies that offer counseling
12 services for risk of heart disease and diabetes. And those
13 types of services may well disappear as a result of the
14 integration that we're seeing here.

15 Q. So something like AHF's offering drugs no matter what
16 the coverage is or providing the 35-day call, the loss of
17 services like those would be cognizable?

18 A. Absolutely.

19 Q. Okay. Well, we're here today to talk about whether
20 or not this is an effective merger remedy.

21 Dr. Moss, first of all, give the Judge your
22 perspective generally, looking at hundreds of merger
23 remedies, about what it is the agencies and courts are
24 supposed to do and whether or not that effectively works.

25 A. The agency's own guidelines state that a merger

1 remedy should fully restore competition lost by the merger.
2 Another way of saying that is that the remedy must preserve
3 competition, essentially as if the merger had never occurred.

4 So that's what an effective remedy essentially is, is
5 one that fully restores competition lost by the merger. An
6 effective remedy should really align with a magnitude of
7 competitive and consumer harm. Right? So the more serious
8 the concern, as we see here in the PDP markets with the
9 effect of this merger, really is a heavy lift on crafting a
10 remedy that is going to fully restore competition.

11 And I would note for the record that sometimes the
12 most effective remedy is for the government to move to block
13 the merger, in fact. And we have seen that. We saw that in
14 previous insurance mergers, in Anthem-Cigna and also in
15 Aetna-Humana where both mergers were essentially denied
16 because they were concentrative and would have created
17 significant harms.

18 In AIA's 20 years of research and advocacy, we have
19 seen a growing list of a number of failed remedies. And this
20 remedy, the PDP remedy here, concerns us because it bears a
21 lot of resemblance to some of these other cases. For
22 example, in the healthcare space, UnitedHealth and Sierra
23 merged, Aetna and Prudential merged, and Humana and Arcadian
24 merged. These all occurred within the last, say, 10 or 15
25 years.

1 So in the first two of those cases,
2 UnitedHealth-Sierra, Aetna-Prudential, after a divestiture,
3 it was documented empirically that rates went up, that
4 premiums went up. So that would not be an effective remedy
5 if the divestiture were put into place and then prices went
6 up afterward.

7 In Humana-Arcadian, WellCare had assumed those assets
8 in several counties in Arizona and then two years later
9 exited the market. That would not be an effective
10 divestiture because the buyer was unable to maintain or
11 reinject competition.

12 We have seen failed remedies in Safeway-Albertsons,
13 in Dollar Tree-Family Dollar, in Hertz-Dollar-Thrifty, all
14 buyers who were unable to maintain the assets who could not
15 step into the shoes of the merging party that divested the
16 assets. So all of this means that a remedy was ineffective
17 and that the harmful effects of the merger actually did occur
18 because the remedy was not successful. And we have very
19 similar concerns in this case.

20 Q. So the last time WellCare had a divestiture, it
21 struck out?

22 A. In the Humana-Arcadian merger, that is correct.

23 Q. Is part of what the agencies -- how do the incentives
24 and abilities of the firm that is acquiring the assets, how
25 is that included in the analysis?

1 A. So to fully restore competition or step right into
2 the shoes of the market participant from which the assets are
3 being purchased really requires a lot of things to fall into
4 place pretty quickly and successfully.

5 So there are really three major observations about
6 why that is likely not to be the case in CVS-Aetna in PDP
7 markets.

8 One is simply the highly concentrated nature of the
9 PDP market. And we heard this, of course, from Dr. Sood.
10 But the punch line up front is that because of high
11 concentration and just having a few firms in this market,
12 United and Humana and CVS, I believe Express Scripts is in
13 there a little bit, WellCare post-divestiture would have a 13
14 percent market share, but because they're aren't any smaller
15 firms and because WellCare was really on the fringe of even
16 being a good candidate, you really don't have many
17 possibilities as buyers of divested assets to reinject that
18 competition.

19 Q. So you're saying this is basically a very tough
20 market to enter into even if you're given that boost of the
21 additional Aetna lives?

22 A. Absolutely.

23 And so there are several concerns as a second point
24 about WellCare Health not being well positioned to
25 successfully compete after it assumes the assets. It is much

1 smaller relative to Aetna. It is about a quarter of the size
2 in terms of enrollees. It lacks the economies of scale and
3 scope and the brand reputation that Aetna has. We've talked
4 about that.

5 Also of concern is the fact that when WellCare Health
6 assumes Aetna's PDP enrollees, they will need to absorb about
7 180 percent increase in enrollees in a really short period of
8 time. That's an enormous uptick in the number of enrollees.

9 We also know that WellCare Health has struggled a bit
10 between 2014 and 2017. They lost on average annually about
11 4.6 percent of their enrollees in these PDP plans that they
12 have.

13 And as I just mentioned, they exited the market very
14 shortly after buying assets in the Humana-Arcadian merger.

15 Q. In determining whether a firm has the ability to
16 effectively restore competition, which you said earlier is
17 fully restore competition, how crucial are these elements,
18 the past history and the perspective of how much it has
19 to --

20 A. Oh, I think they absolutely bear serious
21 consideration in determining whether WellCare Health is a
22 viable buyer of the assets and whether they are going to be
23 able to reinject the competition.

24 To be honest, the way the consent -- the remedy is
25 structured in the consent decree raises additional concerns.

1 It is a very limited set of assets. It is sort of riding on
2 the border of being a divestiture of an ongoing business
3 versus just a bundle of selected assets, which the FTC has
4 had a lot to say about in examining its own divestitures.
5 Brand loyalty could well limit WellCare's ability to attract
6 customers later on. It puts enormous pressure on WellCare
7 Health to quickly step in. The administrative services
8 agreement that's part of the remedy expires at the end of
9 this year. And Aetna can start re-marketing products under
10 its own brand name and the CVS brand name in less than two
11 years. Okay?

12 Aetna employees are not being transferred with the
13 contracts, the PDP contracts.

14 So if you take all of these factors together, you
15 have a track record and you have a remedy and you have a
16 market, and critical attributes of the market in terms of
17 high concentration that really call into question the
18 efficacy of this remedy in addressing the very serious harms
19 that are identified in the complaint.

20 Q. Dr. Moss, let's spend a little time unpacking some of
21 this for the Court.

22 The administrative services agreement expires in
23 2019. Why is that important to WellCare in being able to
24 effectively enter the market and fully restore competition?

25 A. So, in many divestitures, there will be the actual

1 divestiture of the asset itself, although in this case this
2 isn't a manufacturing facility. It is a collection of
3 contracts. But other things need to go with it. There needs
4 to be support. There needs to be transfer of information and
5 records. There needs to be ability for the buyer to tap into
6 the expertise and the advice of the original owner of the
7 assets. So this collection of support in terms of access to
8 the contracts and ability to use the brand name of Aetna for
9 a year -- I believe it's a year -- those are all sort of
10 ancillary but vitally important to supporting the actual
11 divestiture of the assets itself.

12 And that, as I said, is only in place for about seven
13 more months.

14 So WellCare will have to really hit the ground
15 running fast and scale up fast and assume an enormous inflow
16 of enrollees to be able to reinject this competition.

17 THE COURT: Do you have any idea what percentage of
18 CVS's business is devoted to the PDP program?

19 THE WITNESS: You mean in terms of their overall, for
20 example, overall revenues?

21 Your Honor, I do not have that number.

22 THE COURT: Do you know, would it be lesser or
23 greater than the other non-PDP services that it provides?

24 THE WITNESS: In terms of CVS's business?

25 THE COURT: Uh-huh.

1 THE WITNESS: I could guess, but I'm reluctant to
2 guess.

3 THE COURT: I don't want you to guess.

4 What, if any, significance do you view the
5 apparent -- I think, if I understood Dr. Sood earlier today,
6 the apparent strengthening of CVS's PBM services ability as a
7 result of this merger as it relates to its other businesses?

8 THE WITNESS: Sure, sure. So CVS can continue
9 to -- can continue to aggressively expand its PDP plans.
10 Aetna can essentially reenter the market after a relatively
11 short period of time. I think are big incentives, strong
12 incentives for them to continue to do that.

13 If you take those parameters that have been crafted
14 around the remedy in the consent order and you superimpose
15 that dynamic onto the vertical integration that we see by
16 pairing up a retail pharmacy and PBM with a health insurer, I
17 think you have a rather toxic set of incentives or changed
18 incentives and abilities to potentially make it difficult for
19 rival health insurers to compete or rival pharmacies to
20 compete.

21 So I think the combination of the horizontal
22 integration in the PDP market and the ineffectiveness of the
23 remedy and the vertical integration will significantly change
24 incentives in ways that may be hard to predict but almost
25 certainly will be harmful to competition and to consumers.

1 And I don't mean hard to predict in that we can't
2 talk about what they are likely to be, but hard to predict in
3 the sense that you're now dealing with a very complex, even
4 more complex integrated business ecosystem where CVS and
5 Aetna, with their affiliates in multiple businesses, will be
6 leveraging across all of those different businesses in the
7 post-merger, post-divestiture world.

8 BY MR. BALTO:

9 Q. In other words, CVS having control of a PBM and
10 control of "must have" retail pharmacies can use that
11 leverage to forestall competition in other areas?

12 A. Right. Yes, I think it goes without saying that the
13 CVS brand and retail pharmacy and certainly PBM is viewed by
14 rival insurers as being a "must have" input. A much, much
15 stronger case than I think the case in the last big vertical
16 merger, AT&T-Time Warner --

17 THE COURT: We heard about "must have" TV in that
18 one. It didn't turn out to be as "must have" as some people
19 thought.

20 THE WITNESS: I agree with you.

21 I would argue in this case this is a much stronger
22 case for why input foreclosure could be very damaging and why
23 these CVS pharmacy networks really are essential for rivals
24 to compete.

25 BY MR. BALTO:

1 Q. Let's go back to drugs. So the point about brands,
2 why is brand really important and the fact that they only
3 have the brand for a short period of time and that CVS can
4 reuse the Aetna brand --

5 A. Well, a lot of economic research has been done on the
6 role of brand loyalty in shaping demand, controlling demand,
7 if you will. We know that brand loyalty creates what we call
8 lock-in effects where it really limits consumers' willingness
9 to switch to rivals, rival providers. I think in the
10 healthcare industry brand loyalty is very, very significant.
11 You're talking about people's healthcare, you're talking
12 about access to drugs.

13 THE COURT: Are you talking across the board or in
14 the PDP in particular?

15 THE WITNESS: I think across the board.

16 For example, this is my prescription drug card, and
17 it is stamped in red with "CVS/Caremark" across the top. It
18 is in the largest font on the card. And that indicates a
19 significant recognition by the companies that their brand
20 carries a lot of weight.

21 So an unwillingness of consumers to venture out to
22 switch to a lesser known provider, for example, WellCare
23 Health, would be a pretty significant consideration.

24 And if WellCare only has the ability to market under
25 Aetna's brand for a year and then in less than two years

1 Aetna can reenter and start marketing again under their own
2 name, that doesn't give WellCare Health very much time to do
3 anything in terms of injecting competition into the market.

4 THE COURT: So do you agree with Dr. Sood that
5 they're likely to believe as of now that they're not going to
6 retain a high percentage of the customers that they have
7 acquired?

8 THE WITNESS: I do. I think that's a really
9 important analysis that Dr. Sood did, the retention analysis.
10 And I think it is spot on, and it is very important to
11 consider that. It will very likely not be a hundred percent
12 retention rate.

13 BY MR. BALTO:

14 Q. Dr. Moss, you mentioned before that one of the
15 alternatives would be simply to block the merger. A couple
16 of years ago that happened in the Aetna-Humana merger. Judge
17 Bates, evaluating the remedy in that merger, rejected it.
18 How does the proposed remedy in that merger compare to the
19 proposed remedy here?

20 A. So I think that there is a stark contrast between the
21 two. Here you're talking about 2.1 million enrollees being
22 assumed by WellCare Health. That, again, is 180 percent
23 increase in what WellCare will have to absorb into its
24 business very quickly.

25 In the Aetna-Humana case, the proposed divestiture of

1 almost 300,000 lives, covered lives, to Molina, the court
2 concluded that it would not effectively restore competition.
3 That is a mere fraction of the size of a divestiture as
4 compared to the one that is being proposed here, and that was
5 rejected, not only by the government, but by the Court, as
6 well, in the Aetna-Humana merger, which was the number one
7 reason why the merger was challenged and effectively blocked.

8 Q. Is there anything that has happened recently that
9 perhaps raises your -- even beyond what you have testified so
10 far that raises your concerns like any proposed acquisitions?

11 A. Sure. So it is in the news, only in the news that
12 Centene will be acquiring WellCare Health or could -- is
13 proposed to acquire WellCare Health. So a couple of things
14 on that. One is it will create yet another vertically
15 integrated insurer and PBM and integrated company. But for
16 the purposes of the remedy, it is very troubling to hear the
17 news that WellCare, so shortly after acquiring the assets,
18 the PDP assets from Aetna, would be absorbed yet into another
19 integrated healthcare organization. And the reason why
20 that's concerning for the remedy is because that would be a
21 very different animal than WellCare is right now. WellCare
22 right now looks very differently than it would if it were
23 merged into Centene. It would be a much larger integrated
24 organization. It would have fundamentally different
25 incentives and abilities to use those PDP assets to maintain

1 them or not to maintain them than the WellCare Health that we
2 see today that is the proposed buyer of the PDP assets.

3 So having a big vertical merger quickly on the tails
4 of this proposed divestiture I think changes the landscape
5 fundamentally because you have very different incentives in
6 that larger integrated organization and how those PDP assets
7 would be maintained.

8 Q. Okay. Is there anything else you want to say about
9 the divestiture?

10 A. That's all I have.

11 Q. Okay. Great.

12 Let's move on to vertical concerns. Can you give the
13 Court a sense -- I think you already have -- about why there
14 are concerns from vertical acquisitions in healthcare and
15 then what are those concrete concerns in this market.

16 A. So I would observe that there are four major concerns
17 surrounding vertical mergers and how they can affect
18 competition and consumers. One is through the standard
19 foreclosure theories, right, where you pair up an input
20 supplier with a distributor or a manufacturer with a
21 distributor. Now that firms are vertically integrated, they
22 have assets that give them leverage or bargaining power over
23 their rivals in two levels of market, an upstream market and
24 down stream market. In this case, in CVS-Aetna, the
25 potential foreclosure concerns are not only input

1 foreclosure, which would be potentially raising the costs or
2 cutting off rival insurers' access to "must have" CVS
3 pharmacies and PBM services, but also what we call customer
4 foreclosure, which would essentially be denying rival
5 pharmacies and PBMs the ability to get at Aetna as a
6 potential customer. So the two foreclosure theories, as you
7 know.

8 The second concern with vertical mergers is -- I've
9 already alluded to -- is the creation of much higher barriers
10 to entry, where with a bunch of vertically integrated firms,
11 very difficult for any firm to enter at a single level. They
12 have got to come in at multiple levels. And that really just
13 -- scaling that wall would be very, very difficult.

14 Vertical mergers can also facilitate coordination
15 amongst firms through information exchange between the
16 upstream and the downstream affiliates, which I think we've
17 heard about in some other vertical mergers. And then, of
18 course, vertical mergers can eliminate potential competitors.

19 The concerns of the consumer groups here in this
20 particular case fall most squarely on the foreclosure
21 concerns, input foreclosure first and customer foreclosure.

22 Q. From the perspective of insurers, I gather so part of
23 this is CVS will deny access to its pharmacies and it will
24 screw up access to Caremark. So from the insurer's
25 perspective, how crucial is access to an effective PBM?

1 A. So I think it is well recognized that from an
2 insurer's standpoint that having access to the depth and the
3 scope of the CVS pharmacy and PBM networks is really
4 essential to be able to compete in these markets.

5 Insurers want to offer that feature to their
6 potential customers -- plan sponsors, pension funds, you name
7 it -- that ultimately benefit the subscribers to those
8 insurer plans.

9 So when a vertical merger occurs involving a "must
10 have" asset, like the CVS pharmacies and PBM, we have to look
11 really, really carefully and skeptically at the possibility,
12 or we have to carefully assess the possibility that there
13 would be enhanced incentives and ability to make it much more
14 difficult for rival insurers to get access to CVS and Aetna.
15 And that is the case -- that is the case here.

16 So the concern --

17 Q. By the way, just pause for a second. You said get
18 access. Maybe that creates an impression like, no, no, no,
19 no, CVS won't allow anybody to have access to their PBM. Is
20 it get access or is it more than that? Is it like providing
21 inferior access?

22 A. Of course, it is more than that. Thank you for that
23 clarification.

24 So it is sort of a spectrum of possible concerns.
25 One is they can -- they can do things, engage in behaviors

1 that make it -- that would raise the cost of rival insurers.
2 They could just hassle them and engage in -- and I will go
3 through a list of what potentially is on the table here.

4 THE COURT: Could they require them to get their
5 drugs only at CVS?

6 THE WITNESS: Absolutely.

7 THE COURT: Would that be legal or illegal, as far as
8 you know?

9 THE WITNESS: As far as I know, barring any legal
10 constraint on that, I think the more powerful and the more
11 market power CVS has through this merger or other mergers,
12 the more attractive it becomes for them to force rival
13 insurers into exclusive networks.

14 THE COURT: If they didn't do that, could they at a
15 minimum tell their customers that if you don't go to CVS,
16 either your co-pay will be -- won't be a contribution from us
17 or the co-pay will be much higher?

18 THE WITNESS: Absolutely. And that has actually
19 happened. About four years ago CVS engaged in an
20 anti-smoking policy where they informed their customers,
21 their Caremark customers, that if they purchased their drugs
22 from a rival pharmacy that sold tobacco products that they
23 would be -- they would pay a \$15 extra co-pay.

24 THE COURT: Was that challenged as to its lawfulness?

25 THE WITNESS: I don't know. But I did not -- in

1 doing follow-up, I was not aware of any legal challenge to
2 that.

3 THE COURT: Interesting.

4 THE WITNESS: But there are also other mechanisms.
5 For example, in raising the cost of rival insurers or just
6 frustrating access, which would be more of a full foreclosure
7 kind of scenario, CVS-Aetna could develop formularies that
8 exclude important drugs that are in demand by subscribers of
9 rival health insurers.

10 Dr. Sood articulately outlined the lack of
11 transparency and the failure, for example, to pass on rebates
12 to rival health insurers.

13 They could design their pharmacy networks in a way
14 that excludes important options like specialty pharmacies.
15 That's key.

16 As you mentioned, they could force their rival
17 insurers into exclusive CVS/Caremark networks.

18 They can use information that they gather about rival
19 subscribers and drug spend to impair their ability to
20 compete, to beat them to the punch, for example, on new
21 marketing plans, targeting certain segments of their customer
22 base. And then certainly, you know, the ultimate would be to
23 simply deny to fill prescriptions for their rival -- for
24 rival insurers.

25 So it is troubling that there is such a robust list

1 of mechanisms through which CVS and Aetna could effectively
2 foreclose rival health insurers. And again, it is critically
3 important in this case to recognize that high levels of
4 concentration -- high levels of concentration -- are really,
5 really -- really, really important. Right? If rival
6 insurers can't get access to CVS, who do they turn to? Who
7 do they turn to, to avoid any sort of anti-competitive
8 conduct by the merged company?

9 You don't need complicated economics to figure that
10 out when options are so limited by high concentration that
11 that is determinative of an anti-competitive, anti-consumer
12 effect.

13 BY MR. BALTO:

14 Q. Let's step back for just a second here. By exclude,
15 you don't mean totally exclude, it could also mean providing
16 discriminatory access or harming them in some other fashion;
17 right?

18 A. Correct.

19 Q. I'm sure that the nice witnesses tomorrow will tell
20 the Court that these insurers are really bright and they
21 could detect those strategies and easily switch to another
22 PBM.

23 What is wrong with that theory that they could easily
24 detect those strategies, especially for something like PBM
25 rebates and easily switch to another PBM?

1 A. Well, I think a lack of transparency -- and Dr. Sood
2 alluded to this earlier -- a lack of transparency in terms of
3 whether health insurers even know they're getting the best
4 deal from their PBM. Very hard to tell. There is really not
5 much benchmarking in the industry in terms of whether the
6 prices that an insurer pays are actually competitive or not.

7 THE COURT: Is there any research that indicates that
8 the average insurer has ever heard of what a PBM is, or have
9 any idea what a PBM is. Before I got this case, I never even
10 heard the expression PBM. Never heard of it. I now know it
11 is a major, major in this entity. But unless you're steeped
12 in this area of business and law, you would never -- I don't
13 think the average insured person would have any idea what a
14 PBM is? They have no idea.

15 THE WITNESS: I think you're right. I think you're
16 absolutely right.

17 But I would also add, just to flesh this out a bit,
18 that the lack of transparency in the PBM industry, nobody
19 knows how big the rebates are, do they ever get passed
20 through to the final subscriber. All of this --

21 THE COURT: Congress doesn't require them to report
22 any of this?

23 THE WITNESS: And this has triggered state level
24 initiatives to combat this lack of transparency and the power
25 that is held by the PBMs in this very murky -- very murky --

1 intermediary type --

2 THE COURT: They're the middlemen.

3 THE WITNESS: Exactly, they are the middleman, for
4 sure.

5 BY MR. BALTO:

6 Q. In fact, Dr. Moss, PBMs have restricted pharmacies
7 from being able to disclose lower cash prices, as we heard
8 today.

9 Let's go on to the customer foreclosure concerns.

10 Why does access to customers matter for rivals?

11 A. So the customer foreclosure theory, which you don't
12 hear as much about in vertical mergers because it is
13 different and it assumes a very different fact pattern, the
14 story would go something like: Because CVS now has this
15 killer asset in the form of Aetna as a health insurer and
16 Aetna could conceivably go out and contract with -- an
17 unintegrated Aetna could go out and contract with any
18 pharmacy or any PBM, the logic goes that, now integrated,
19 this very important Aetna asset could be essentially withheld
20 from the market in the fashion that CVS-Aetna would refuse to
21 deal or decline to deal with rival pharmacies and PBMs. And
22 that's a problem. That's an absolute problem. And again,
23 there are many mechanisms that could be utilized to engage in
24 customer foreclosure. And of course, the concern is, if that
25 frustrates competition in the pharmacy and in the PBM markets

1 by taking Aetna off the table as a potential customer, then
2 prices will go up, drug prices will go up because there is
3 less competition in the upstream markets.

4 So, again, mechanisms that could be deployed to carry
5 out a customer foreclosure theory would be forcing Aetna
6 subscribers to convert to CVS/Caremark mail order, this is
7 the exclusive networks problem that you just referred to.
8 They could refuse to grant rival PBMs' affiliations to serve
9 Aetna subscribers. That's a necessity to be able to actually
10 do business with a health insurer. They could drive down
11 dispensing fees for the independent pharmacies. They could
12 delay reimbursements to smaller rival pharmacies. They can
13 cherry-pick profitable prescriptions, take the most
14 profitable for themselves and leave the smaller rivals with
15 the very unattractive low-margin prescriptions. They can go
16 through yet another set of activities or forms of conduct
17 that would make it very difficult for rival PBMs and
18 pharmacies to get access to Aetna. And of course, that would
19 impair competition in the pharmacy PBM market, and input
20 foreclosure would impair competition in the health insurer
21 market.

22 And these are, as I said, very, very concentrated
23 markets with very few options for the impacted consumers,
24 businesses to switch to any other viable option. And that's
25 why high concentration matters.

1 Q. How does high concentration in the health insurance
2 market make this more problematic?

3 A. So when you have high concentration in the health
4 insurance market, there are very few -- there are very few
5 options for consumers, for example, who are the victims of an
6 input foreclosure strategy to turn to. Right? So if the
7 market was really well ventilated and we had 10 rival --
8 robust rivalry between 10 health insurers, very few of these
9 foreclosure concerns would arise in any vertical merger. If
10 we had lots of competition in retail pharmacy and PBMs,
11 foreclosure concerns are minimized, if not eliminated
12 completely. It is only when high concentration matters, and
13 switching options are very limited, and consumers are locked
14 in to one provider, one pharmacy network or PBM network, and
15 one health insurer network that really prompts these concerns
16 about effective highly likely types of foreclosure.

17 I would also like to point out that the DOJ in their
18 competitive -- in their response to the public comments in
19 this proceeding fairly swiftly dismissed the foreclosure
20 concerns. So, in the context of -- pardon me, Your Honor,
21 I'm looking for --

22 THE COURT: Take your time.

23 THE WITNESS: -- the correct page.

24 It's in here somewhere.

25 THE COURT: Why don't you just paraphrase it. Give

1 me your recollection of it in general. If you find it
2 later --

3 BY MR. BALTO:

4 Q. Look at slide 17, Dr. Moss.

5 A. Here we go. I'm sorry. Apologies.

6 I should have a staple. These aren't stapled
7 together. Staples are very useful.

8 THE COURT: You have five minutes left. I wouldn't
9 worry about it too much.

10 THE WITNESS: Let's go back to input foreclosures.
11 Concerns that post-merger CVS and Aetna have enhanced
12 incentives and abilities to foreclose their rival insurers
13 from access to these "must have" networks. There is very
14 little transparency in DOJ's explanation for why that is not
15 a concern. They state two reasons for that. One is that it
16 would be unprofitable for them to cut off or frustrate rival
17 insurers' access to CVS because they would lose the business.
18 They would just lose the business. And their insurer rivals
19 switching to other PBMs and pharmacies are significant enough
20 to make this an unprofitable strategy.

21 And the second part of the rationale, according to
22 DOJ, as I read it, is Aetna's inability to capture those
23 customers who are on the short end of the stick because now
24 they can't get access to a really "must have" input that
25 Aetna can't capture those customers.

1 I find, as an economist who studies this stuff 24/7,
2 I find that to be a very murky and ill-supported rationale
3 for why the Court should not consider -- why the government
4 did not consider input foreclosure, and I think it really
5 deserves a hard look.

6 Of course, we don't have access to confidential
7 documents that were produced in an investigation. We do all
8 of our analysis on the basis of publicly available
9 information.

10 But just to finish up this theme, DOJ's logic as to
11 why customer foreclosure is not a concern in this case,
12 meaning cutting off Aetna from rival PBMs and rival
13 pharmacies, is that it is unlikely because Aetna's relatively
14 small share in the commercial insurance markets -- because
15 Aetna has a small share in the commercial insurance
16 markets -- I have trouble with that, significant trouble with
17 that because Aetna competes in more than just commercial
18 insurance markets. They compete in Medicare Advantage. They
19 have other insurance products. It doesn't matter that they
20 have a small share in commercial markets. Any of their
21 insurance products are going to need to have inputs from
22 pharmacy and from PBM services. So I found just reading the
23 government's comments, response to the comments, I found that
24 to be -- to lack a lot of transparency and clarity as to why
25 that was a reason why we should not worry about customer

1 foreclosure.

2 Q. So those two sentences on vertical foreclosure don't
3 give the Court much guidance about why there aren't concerns?

4 A. Correct.

5 Q. Going back to the pharmacy-related concerns, is there
6 any other information you've recently gathered that sort of
7 raised your concerns over pharmacy-related issues?

8 A. Well, I think, to return to the theme of Centene, the
9 proposed or possible Centene-WellCare Health merger we would
10 have yet another vertically integrated -- another vertically
11 integrated insurer, pharmacy provider. Probably that would
12 be fourth or fifth in the lineup. They would be the fourth
13 or fifth largest firm.

14 Q. Going back to the concerns of Dr. Wohlfeiler, do you
15 think those concerns are more general or unique to AHF?

16 A. No, I think they're much more -- they are
17 generalizable to, not only at-risk populations that he so
18 clearly articulated, but to any populations. And to come
19 full circle, we're talking about consumers in this case in
20 the PDP markets who are senior citizens, who are low-income
21 consumers, who are sometimes at-risk individuals. And those
22 impacts are really significant. And we're also talking
23 about, not only those consumers, but the effects of higher
24 costs and higher premiums and higher rates on taxpayers who
25 fund the Medicare Part D programs.

1 In terms of the vertical concerns, I think the
2 impacts would be on all of us. All of us would face
3 significantly higher premiums, higher drug costs, as a result
4 of this merger but, more generally, this sort of fundamental
5 restructuring in the industry that this merger really
6 contributes to.

7 Q. So will competition be fully restored and consumers
8 be protected if the Judge signs the proposed Final Judgment?

9 A. I do not think they would be at all. I think
10 consumers would be greatly -- competition would be
11 imperilled, and consumers would be greatly at risk.

12 THE COURT: Thank you, ma'am.

13 THE WITNESS: Thank you.

14 THE COURT: You may step down.

15 (Witness excused)

16 THE COURT: All right. Counsel, we'll reconvene
17 tomorrow morning at 10:45. We will hear from CVS, the
18 government's, and Aetna's three witnesses.

19 I believe your first witness is the two-hour witness;
20 isn't that correct?

21 MR. PITTS: Yes, Your Honor.

22 THE COURT: We will hear from that one first. We
23 probably won't finish it before lunch, but we might, it's
24 possible. And then we will hear from the other two witnesses
25 in the afternoon.

1 So I will see you in the morning.

2 Mr. Habash, come up.

3 (Bench conference not reported)

4 (Proceedings adjourned)

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23 I, Patricia A. Kaneshiro-Miller, certify that the
4 foregoing is a correct transcript from the record of
5 proceedings in the above-entitled matter.6
7
8 /s/ Patricia A. Kaneshiro-Miller

June 4, 2019

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